LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com.,B.B.A. DEGREE EXAMINATION – CORPORATE&BUS.ADMIN.

THIRD SEMESTER – NOVEMBER 2009

CO 3201 - FINANCIAL MANAGEMENT

Date & Time: 13/11/2009 / 9:00 - 12:00 Dept. No. Max. : 100 Marks

SECTION – A

Answer all the following questions **(10x2=20)**

1. What is meant by 'stock dividend'?
2. State any two demerits of pay back method.
3. Explain 'loan financing'.
4. Give the meaning of the term operating cycle.
5. What is cost of equity?
6. List any four factors affecting the capital structure of a company.
7. A company has raised funds through the issue of 10,000 debentures of Rs. 150 each at a discount of Rs. 5 per debenture with 10 years of maturity. The coupon rate is 14%. The tax is 40%. Calculate the cost of debentures.
8. Determine the average rate of return from the following data of a machine.

Cost of the asset	=	Rs.57,000
Working capital	=	Rs.3,000
Estimated life in years	=	5
Estimated salvage value	=	Rs. 1,000
Average profit after tax	=	Rs. 8,500

9. Degree of operating leverage = 2.5, variable cost = 12000, EBIT = 20,000. Calculate sales.
10. Compute the raw material holding period in days from the following:

Average stock of raw material	=	Rs. 4,50,000
Raw material consumption in a year	=	Rs. 50,00,000

SECTION – B

Answer any five questions **(5x8=40)**

11. The following are the information related to Reliance Ltd.

Equity share capital (Rs. 10 each)	=	Rs. 4,00,000
10% debentures	=	Rs. 6,00,000
Sales	=	Rs. 9,60,000
Variable cost	=	Rs. 5,60,000
Fixed cost	=	Rs. 2,40,000
Tax rate	=	50%

Calculate a) operating leverage b) financial leverage c) combined leverage.

12. The Alpha co. Ltd wants to replace its existing plant. It has received two mutually exclusive proposals namely plant I & plant II. The plants under the two proposals are expected to cost Rs. 2,50,000 each and have an estimated life of 5 years and 4 years respectively. The company's required rate of return is 10%. The anticipated cash flow after tax for the two proposals are as follows:

Years	Plant I Rs.	Plant II Rs.
1	80,000	10,000
2	60,000	95,000
3	60,000	85,000
4	60,000	35,000
5	1,80,000	---------

Which of the above proposals would you recommend to the management for acceptance if NPV technique is used for evaluation?

13. a) The following data pertain to evergreen limited:
Existing capital structure consists of equity shares (Rs. 10 each) of Rs. 10 lakhs. It plans to raise additional capital of Rs. 100 lakhs for financing an expansion project. It is evaluating two alternative financing plans: (i) issue of 10,00,000 equity shares of Rs. 10 each and (ii) issue of Rs. 100 lakhs debentures carrying 10% interest. You are required to compute indifference point EBIT. Assume the tax rate is 50%.

b) The capital structure of ABC ltd consists of

Equity share capital (Rs. 10per share)	Rs. 50,000
12% Debenture	Rs. 80,000
10% Preference share capital	Rs. 90,000

The tax rate is 30%

Determine the likely level of EBIT if EPS is Rs. 3

14. Alliance ltd is proposing to take up a project which will need an investment of Rs. 70,000. The cash flow after tax is estimated as follows:

Year	Cash flow after tax Rs.
1	20,000
2	25,000
3	35,000
4	15,000
5	10,000

Calculate internal rate of return.

15. From the following information, prepare an estimate of working capital requirements at cash cost.

(i) Annual sale	1,04,000 Units
(ii) Selling price	Rs. 80 per unit
(iii) Raw material cost	30% of selling price
(iv) Direct labour cost	20% of selling price
(v) Over heads	15% of selling price

Raw materials remain in stock on an average for 3 weeks. Goods remain in production process for 4 weeks on an average. 4 weeks are allowed to debtors to pay while firm gets 2 weeks credit from suppliers. Finished goods remain in stock for one month. Lag in the payment of wages is one week. 50% of the sales are on cash basis. Assume that goods in process are 100% complete with respect to materials but only 40% in conversion costs.

16. Explain internal financing and different sources of internal financing.
17. What are the different factors which affect the dividend policy of a company?
18. Discuss the factors to be considered in determining working capital requirements of a firm.

SECTION – C

Answer any two questions **(2x20=40)**

19. What is financial management? Explain the functions of financial management.

20. Shyam ltd has the following book value capital structures:

Equity capital Rs. 100 each	Rs. 10 lakhs
12% Preference capital Rs. 10 each	Rs. 3 lakhs
Retained earnings	Rs. 30 lakhs
11% debentures Rs.100 each	Rs. 8 lakhs

The next expected dividend is Rs. 12 per share. The dividend is expected to grow at 6% per annum. Market price of the share is Rs. 120. Preference share redeemable after 10 years is currently selling at Rs. 7. Debentures redeemable after 6 years are selling at Rs. 85. Tax rate is 50%. Calculate WACC using (a) Book value (b) Market value as weights.

21. The existing capital structure of a company is as follows:

Equity shares of Rs. 100 each	Rs. 50,00,000
Retained Earnings	Rs. 10,00,000
10% Preference shares	Rs. 20,00,000

The existing rate of return on the company's capital employed is 12% and the tax rate is 50%. The company requires a sum of Rs. 20,00,000 to finance its expansion program, for which it is considering the following options:

a) Issue 20,000 equity shares
b) Issue 10% preference shares
c) Issue 10,000 equity shares @ Rs. 100 each and for the balance issue 8% debentures.

The rate of return will increase by 2% after the expansion program. It is estimated that the price earnings ratio in the above three financing options would be 18, 16 and 15 respectively. Which option would you recommend?

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